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STATE OF MONTANA

MAR 30 1994

Office of the Legislative Fiscal Analyst

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March 3, 1994

TO: Legislative Finance Committee

FROM: Jon Moe
Senior Fiscal Analyst *Jon Moe*

RE: Interentity Loan and Negative Cash Report by the Office of the
Commissioner of Higher Education and the Department of
Administration

BACKGROUND

In response to concerns expressed by the Legislative Finance Committee (LFC) concerning interentity loans and accounting entities with recurring negative cash balances, the legislature passed House Bill 44 during the 1989 session, which made some significant changes in the laws governing interentity loans. One of these changes was to transfer the approval process for interentity loans for the university system from the Department of Administration (DofA) to the Office of the Commissioner of Higher Education (CHE).

To ensure the provisions of the laws governing these loans and accounting entities with negative cash balances were being met, the bill also required DofA and CHE to provide a written report to the LFC by September 1 of each year that: 1) identifies any accounting entity that has received a loan or a loan extension for two consecutive fiscal year ends; 2) explains why the second loan or extension was made; 3) analyzes the solvency of the accounting entity; and 4) provides a plan for repaying the loans. In addition, the CHE report must identify any accounting entity that has had a negative cash balance for two consecutive year ends and a plan to address the solvency of the accounting entities. Statute prohibits negative balances at fiscal year end in an accounting entity for state agencies (section 17-2-107(7)(a), MCA). The university system is directed to maintain a positive cash balance in all funds it administers (section 17-2-107, (b)(i), MCA).

House Bill 393, passed by the 1991 Legislature, allows DofA to authorize long-term loans to federal and state special revenue accounting entities when needed due to the timing of receipt of reimbursements from the federal, private, or other

governmental entity sources. DofA may approve the loans if the requesting agency can demonstrate that the total loan balance does not exceed total receivables. This bill extended the long-term loan provision previously allowed only for the Department of Social and Rehabilitation Services (SRS) to other state agencies in similar circumstances. As discussed below, eleven loans in fiscal 1993 were authorized under the provisions of this bill.

During the 1993 special session, the Racicot administration supported legislation authorizing the Board of Investments to loan permanent coal tax trust funds to the general fund for cash management purposes. This legislation (House Bill 48) was not passed. However, the Department of Administration recommended accounting procedure changes that would "minimize" long-term loans from the general fund. The accounting procedure changes do not require legislation. Two accounting procedure changes are: 1) to allow certain accounting entities to have negative cash up to the statutory limit of seven days and still issue warrants, thereby reducing the balance in long-term loans outstanding; and 2) to use a control account of "warrants payable" in lieu of "cash" in federal accounting entities. These two procedure changes are expected to reduce the need for long-term loans from the general fund.

DEPARTMENT OF ADMINISTRATION

DofA reports that at the end of fiscal 1993, 71 interentity loans were outstanding, with a balance totalling \$42,387,844. This includes 54 loans from the general fund totalling \$7,438,155, of which \$4,600,000 was a loan to accounting entity 02200 (Department of Health and Environmental Sciences), repaid with interest in August 1993. The \$7.4 million is considerably less than the \$37.6 million general fund loan balance reported at the end of fiscal 1992. At the end of fiscal 1992, a \$26.9 million loan to the school equalization account was still outstanding. For fiscal 1993, similar loans had been repaid by the end of the fiscal year.

Through fiscal 1993, DofA authorized loans to 37 accounting entities for two or more consecutive fiscal year ends. This compares to recurring loans to 21 accounting entities in fiscal 1992. The explanation for these 37 loans follows and a copy of DofA's report is attached.

- Eleven loans were extended to federal and state accounting entities that receive reimbursement from the federal, private, or other governmental entity sources. Section 17-2-107(8), MCA, allows DofA to approve long-term loans if the agency can demonstrate that the total loan balance does not exceed total receivables from other governmental sources and receivables have been billed on a timely basis.

- Two are authorized by the legislature. The 1991 legislature, in HB 2, authorized the Department of Health and Environmental Sciences (DHES) to borrow

up to \$4,928,894 with repayment extended through the 1993 biennium. At the end of fiscal 1993, \$4,600,000 had been loaned to A/E 02200. HB 401 (1993 Legislature) provided for a loan from the coal severance tax permanent fund in order to repay the general fund (occurred in August of 1993), and it authorized new loans to DHES of up to \$2,619,076 from the same source. Also, the 1991 Legislature (HB 328) provided for a general fund loan to the Department of Commerce, payable over five years with the last payment due June 30, 1997. The loan balance at the end of fiscal 1993 was \$139,657.

•DofA has authorized loans for two consecutive fiscal year-ends to 24 accounts, as shown in the attached report. The loans to all these accounting entities are scheduled for repayment in fiscal 1994. In addition, the DofA notes that all but one of these 24 accounts had positive fund balances at the end of fiscal 1993 (receivables were greater than loan balance). The remaining account (accounting entity 05020 - HB 5 Bonds/Women's Correctional Center) had a negative balance of \$133,991, due to the delay by the 1993 Legislature of the sale of bonds for this project. The repayment date has been extended, but the fund balance will remain negative until bonds are issued or until the legislature determines another course of action.

As a further note, DofA staff report that all loans past due at the end of fiscal 1993 have either been repaid or have been approved as long-term loans, having met the criteria in section 17-2-107(8), MCA.

COMMISSIONER OF HIGHER EDUCATION

The CHE report summarizes the attached reports from each unit of the university system. There was one interentity loan authorized for two consecutive years as shown in Table 1.

Since 1989, the university system has made significant progress in reducing the balance of interentity loans authorized for more than two consecutive year-ends. In fiscal 1989, the CHE reported four loans totalling \$5,275,000. The fiscal 1992 report showed two loans totalling \$1,000,000. The fiscal 1993 report shows one loan for \$900,000.

Table 1 Loans Outstanding More Than Two Years							
			-----Loan Balance (\$ in millions)-----				
<u>Unit</u>	<u>Fund/Subfund Loan From</u>	<u>Fund/Subfund Loan To</u>	<u>FY89</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>
UM	Current-Unrestricted	Current-Restricted	\$2.400	\$.900	\$.600	\$.500	\$.900
MSU	Current-Unrestricted	Current-Restricted	\$2.575	\$2.670	\$1.050	\$.500	\$.000

These outstanding loans are made to accounts that handle grants and student financial aid programs for which reimbursements are received after the projects are completed. Because these entities include accounts receivables that at least equal the negative cash position, solvency is maintained because the fund balance is not negative. The university units state that:

There will always be a need for a loan to the restricted subfund as long as we continue to sponsor cost-reimbursable activities. Timely billing and collection from agencies has reduced the amount of the required loan.

The increase shown in Table 1 for the University of Montana results from an increase in cost-reimbursable activities. Sponsored program expenditures increased from \$9.6 million in fiscal 1992 to \$12.6 million in fiscal 1993.

Of almost 850 active accounting entities in the university system, 24 had negative cash balances at the end of fiscal 1993. CHE divided these accounts into three categories:

- Twelve entities account for reimbursable contracts or grants where payments are made prior to reimbursement from grant funds. Therefore, these accounts will always have either a negative or zero cash balance. However, their fund balance should be zero (unless an accounting error has been made), since sufficient receivables exist to offset the negative cash balances.

- Nine entities are clearing accounts which have negative balances due to the timing between cash transfers and cash receipts.

- Three entities are reported as having a cash deficiency for two consecutive fiscal year ends. They are described below:

An account at Northern Montana College (NMC) that records activity of the campus repair and maintenance recharge system had a negative cash balance of \$73,274 in fiscal 1991, \$54,998 in fiscal 1992, and \$109,479 at the end of fiscal 1993. NMC states that "cash cutoff adjustments" reduce the 1993 negative balance to \$63,737 and that the value of inventory grew \$37,000 during fiscal 1993. The fund balance at the end of fiscal 1992 was a negative \$15,284 and at the end of fiscal 1993 had increased to a positive \$12,193. NMC further states that "it will be necessary to increase the fund balance annually until such time as the fund balance exceeds the amount of inventory and work in progress".

An account at Northern Montana College (NMC) that records activity of the campus housing and dining system had a negative cash balance of \$27,734 in fiscal 1992 and \$157,805 in fiscal 1993. The increased negative balance results from a continued low population in the residence halls and some exceptional repair costs (approximately \$65,000 of

unbudgeted repair expenses in fiscal 1993). NMC states that a combination of room rate increases for fiscal 1994, increased occupancy, and closure of a residence area in Donaldson Hall, is expected to significantly reduce the negative cash balance, and continuation of current enrollment and some cost reduction measures should result in elimination of the negative balance within two years.

An account at Eastern Montana College (EMC) records activities of the music department. A negative cash balance of \$6,882 in fiscal 1993 (down from a negative \$8,378 in fiscal 1992) resulted from sponsoring Jazzfest '92 for which revenues did not cover costs. EMC states that a plan to alleviate the negative balance by the end of fiscal 1994 has been submitted. It involves restructuring the Jazzfest program, drastically reducing future expenses, and dedicating program ad sales toward paying off the deficit.

JWM:lt:intrntt.rpt

DEPARTMENT OF ADMINISTRATION

DIRECTOR'S OFFICE



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October 15, 1993

To the Members of the Legislative Finance Committee:

Section 17-2-107, MCA, requires the Department of Administration to report loans authorized to the same accounting entity for two consecutive fiscal year-ends to the Legislative Finance Committee. This report discloses such inter-entity loans through Fiscal Year (FY) 1993, excluding those of the University System, which are approved by the Commissioner of Higher Education or the Board of Regents.

At FYE 1993, 37 accounting entities had inter-entity loans for two or more consecutive fiscal year-ends. An explanation for these loans, an analysis of the solvency of these accounting entities, and a description of the plans for repayment follow.

LONG-TERM LOANS GRANTED BY THE DEPARTMENT OF ADMINISTRATION

Through passage of HB 393, the 52nd Legislature amended Section 17-2-107(8), MCA, to allow the Department of Administration to authorize loans to state and federal special revenue fund accounting entities with long-term repayment whenever necessary due to the timing of the receipt of agreed upon reimbursements from federal, private or other governmental entity sources for disbursements made. The Department of Administration may approve these long-term loans if the agency can demonstrate that the total loan balance does not exceed total receivables from federal, private or other governmental entities and receivables have been billed on a timely basis.

Through FYE 1993, the Department of Administration had authorized long-term loans to the following agencies and accounting entities (A/E):

<u>Agency</u>	<u>A/E Name</u>	<u>A/E #</u>	<u>FY 92 Loan Bal.</u>
Justice	HTS Grants	03800	\$ 50,000
Justice	Misc. Grants	03801	25,000
PSC	Natural Gas Safety Prgm	03011	15,000
FWP	Parks Federal Revenue	03098	130,000
FWP	Fish and Game	03403	400,000
DHES	BN Activity	02064	235,000
Agriculture	Marketing Service	03118	50,000
Military Aff.	Long-Range Building	03244	150,000
Military Aff.	National Guard	03132	300,000
SRS	County Reimbursement	02020	890,772
SRS	Public Welfare	03276	4,000,000

These agencies and accounting entities continue to require the long-term loans at the level authorized.

LOANS AUTHORIZED BY THE LEGISLATURE

In HB 2, the 1991 Legislature provided for a general fund loan to the Department of Health and Environmental Sciences to conduct the Clark Fork natural resources damage assessment and litigation against the Atlantic Richfield Company (ARCO). The Legislature authorized DHES to borrow up to the appropriation amount of \$4,928,894. Repayment of the loans was extended through the 1993 biennium and was to include interest at a rate commensurate with rates earned in the short-term investment pool. At FYE 1993, a total of \$4,600,000 had been loaned to A/E 02200 for this purpose.

In HB 401, the 1993 Legislature provided for a loan from the coal severance tax permanent fund in order to repay the General Fund the amount borrowed for ARCO litigation plus the interest due. HB 401 also provided for new loans up to \$2,619,076 from the coal severance tax permanent fund to continue the litigation and natural resource damage claim against ARCO during the 1995 biennium. In August 1993, DHES repaid the loans to the General Fund and in September, began requesting loans from the coal severance permanent fund.

In HB 328, the 1991 Legislature provided for a general fund loan to the Department of Commerce to implement the State Single Audit Act. The loan was for the appropriation amount of \$174,571 and is to be repaid over a 5-year period with final payment due June 30, 1997. The loan balance at FYE 1993 was \$139,657.

LOANS AUTHORIZED FOR TWO CONSECUTIVE FISCAL YEAR-ENDS

In addition to the above noted loans, the Department of Administration has authorized loans for two consecutive fiscal year-ends to the following agencies and accounting entities (A/E):

<u>Agency</u>	<u>A/E Name</u>	<u>A/E #</u>	<u>FY 92 Loan Bal.</u>
SEC'Y. OF STATE	Records Management Bureau	06556R	\$ 40,000
OPI	Public Instruction	03002*PR(LT)	50,000
CHE	Vo-Tech Millage	02127	33,721
LIBRARY	NRIS Federal Funds	03930*(LT)	6,250
DHES	Vital Statistics	02419*R	50,000
DHES	Public Health	03029*R	25,000
DHES	T-19 OBRA Nurse Aid	03948*PR(LT)	50,000
DHES	DHES Legal	06555R	30,000
DOT	Rail Planning & Construction	03055PR	90,000
DOT	FTA Grants	03147PR	299,946

Inter-entity Loan Report

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<u>Agency</u>	<u>A/E Name</u>	<u>A/E #</u>	<u>FY 92 Loan Bal.</u>
DOT	Highway Trust	03407R	34,022,022
STATE LANDS	Reclamation - RIT Grants	02460(LT)	90,000
STATE LANDS	DSL Federal Reclamation Grant	03067(LT)	100,000
STATE LANDS	Land Inventory - BLM	03278R	30,000
DNRC	Resource Dev. & Conserv.	03178R	25,000
ADMINISTRATION	Mail & Messenger	06523*	220,000
A&E	HB 5 Bonds-Women's Corr. Cntr.	05020*	133,991
COMMERCE	Indian Affairs	03063	4,000
CORRECTIONS	Vets. - V A Reimbursement	03112*	163,660
MILITARY AFFAIRS	Montana Guard	03286*(LT)	400,000
FAMILY SERVICES	County Reimbursements	02056*	325,500
FAMILY SERVICES	PHS Donations/I&I	02927*R	88,000
FAMILY SERVICES	PHS Boarder Reimb.	03110*	54,220
FAMILY SERVICES	Social Services Fed. Grants	03203*R	250,000

* Loans from the General Fund.

R Loans repaid to date in FY94.

PR Loans partially repaid to date in FY94.

(LT) Loans qualifying for and approved for change to long-term.

The loans to the above accounting entities are all scheduled for repayment in FY 1994. The loans to A/E 03278 and A/E 03407 were repaid in July 1993; the loan balances for A/E 03055 and A/E 03147 were reduced to \$10,000 and \$20,000 respectfully in July 1993; and the loans to A/E 06556 and 02419 were repaid in August 1993. In September 1993, DHES repaid \$24,000 of the loan to A/E 03948. DHES requested and the Department approved changing \$20,000 of the balance to a long-term loan. Loans to A/Es 03029, 06555, 03178, 02927 and 03203 were repaid in the first half of October 1993. In addition, OPI paid \$35,000 on the loan to A/E 03002 in October 1993; the \$15,000 balance will become a long-term loan. Loans to the following A/Es also qualify and will be approved for change to long-term loans in October 1993: A/E 03930, 02460, 03067 and 03286.

The remaining loans listed above are required to provide cash to support operations pending the receipt of reimbursement from the federal government, other governmental entities or private organizations. Although the Department approved loans to these A/E's through two consecutive fiscal year-ends, none of the specific loans were extended for more than one year. An agency may request and the Department may approve the extension of a loan for a second year. However, if an A/E will be in a negative cash position on an ongoing basis due to the timing of the receipt of expected revenue, i.e. the A/E must expend cash before it is reimbursed, the agency may request and the Department will approve changing a loan to long-term if the criteria specified in Section 17-2-107(8), MCA, is met.

All of the above noted accounting entities, except for A/E 05020, maintained fund balances at FYE 1993 which would indicate solvency. Loans to A/E 05020 were made to provide for cash to cover expenditures incurred in the planning and design of the Women's Correctional Center and were to be repaid with proceeds from the sale of bonds used to construct the facility. Such loans were provided for in HB 5 by the 1991 Legislature. However, the 1993 Legislature delayed the sale of bonds for this project until FY 1995. Section 21 of HB 5 (1993) authorizes the extension through the 1995 biennium of a limited amount of interentity loan authority should the funding for this project be deleted. The repayment date for the loans to this A/E have been extended an additional year as allowed by statute. However, the A/E will continue to have a negative fund balance until the loans are repaid. The loans will be repaid when bonds are issued or as determined by the Legislature.

LOANS PAST DUE

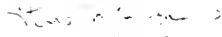
All loans past due at FYE 1993 either have been repaid or have been approved and changed to long-term loans.

FY 1993 INTER-ENTITY LOAN SUMMARY

The Department of Administration approved 44 new inter-entity loans and 4 long-term loans or advances in FY 1993, of which 34 inter-entity loans and 1 advance were from the General Fund. In addition, 27 inter-entity loans and 16 advances approved prior to FY 1993 carried forward to FY 1993, of which 20 inter-entity loans and 11 advances were from the General Fund. At FYE 1993, 71 inter-entity loans were outstanding, with a balance totalling \$42,387,844. This includes 54 loans from the General Fund totalling \$7,438,155. This balance includes the \$4,600,000 loaned to A/E 02200 (DHES) and repaid with interest in August 1993. In addition, 20 advances with a balance of \$7,090,429 were outstanding at FYE 1993. This includes 12 advances from the General Fund totalling \$6,020,429.

I hope you find this report informative.

Respectively submitted,



Lois Menzies
Director



CEIV

MONTANA HIGHER EDUCATION SYSTEMS NOV 16 1993

Office of Commissioner of Higher Education

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TO: Clayton Schenck
Acting Legislative Fiscal Analyst

FROM: Rod Sundsted *RS*
Associate Commissioner for Fiscal Affairs

DATE: November 15, 1993

SUBJECT: University System Statutory Reporting Requirements
Interentity Loans/Negative Cash

Enclosed is the University System's report on interentity loans and negative cash balances as required by 17-2-107 MCA. Our report is again organized into two sections:

1. Loans or extensions of loans which have been authorized to the same accounting entity for two consecutive fiscal year-ends;
2. Accounting entities which have negative cash balances for two consecutive fiscal year-ends.

The attached campus responses provide their analysis of the solvency of the entities and the campuses' plans for eliminating any solvency problems.

The report highlights include:

1. Only one entity was re-authorized for an interentity loan. The total dollar amount of the loan was reduced to \$900,000 from the FY92 level of \$1,050,000;
2. Of almost 850 active University System accounting entities, only three entities have true cash deficiency problems. Twelve entities represented cost reimbursable contracts or grants and nine entities represent clearing accounts or adjustments.
3. Of the 15 higher education agencies represented by this report (6 University System campuses, 5 Vocational Technical Centers, and 4 other University System agencies), 10 reported no cash deficiencies or loans.

The Board of Regents has continued its commitment toward eliminating solvency problems within the University System by focusing on fund balances rather than cash balances. In November 1993, the Regents will be presented a report which lists all accounting entities which had negative fund balances as of June 30, 1993. Only 8 negative fund balances existed as of fiscal year end 1993, and of those 8 entities, 2 were caused by a required accounting adjustment or because of an accounting error. We believe that the solvency of accounts is not a major problem for the University System.

MONTANA UNIVERSITY SYSTEM
REPORT ON INTERENTITY LOANS/NEGATIVE CASH
JUNE 30, 1993

Statutory Requirement #1:

Interentity loans which have been authorized for two consecutive year-ends.

	Fund/Subfund	Fund/Subfund	Dollar Amount	
<u>Campus</u>	<u>Loan From</u>	<u>Loan To</u>	<u>FY93</u>	<u>FY92</u>
UM	Current-Unrestricted	Current-Restricted	\$ 900,000	\$ 500,000

The University System's FY92 report of interentity loans consisted of 3 loans totalling \$1,050,000. The FY93 total balance is \$900,000.

Statutory Requirement #2:

Accounting entities which have had negative cash balances for two consecutive year-ends.

We have divided this section of the report into three categories:

- A. Entities with cash deficiencies
- B. Cost reimbursement grants or contracts
- C. Clearing Accounts/Adjustments

A. Accounting entities with cash deficiencies for two consecutive year-ends.

	Accounting		Dollar Amount	
<u>Campus</u>	<u>Entity #</u>	<u>Account Name</u>	<u>FY93</u>	<u>FY92</u>
NMC	33412	Repair and Maintenance	\$(109,478.65)	\$ (54,998.31)
NMC	34401	Housing & Dining System	(157,804.63)	(27,733.75)
EMC	33353	Music	(6,881.78)	(8,377.82)

B. Cost-Reimbursable Grants or Contracts

This category of accounting entities which have maintained negative cash balances for two consecutive fiscal year-ends consists of grants or contracts which are reimbursed only after the expenses have been incurred. Therefore, they will always have either a negative (or zero) cash balance. However, their fund balances should be zero, unless an accounting error has been made.

B. Cost reimbursable Grants or Contracts

<u>Campus</u>	<u>Accounting</u>		<u>Dollar Amount</u>	
	<u>Entity #</u>	<u>Account Name</u>	<u>FY93</u>	<u>FY92</u>
UM	32108	UM Off-Campus Work Study	\$ (3,590.48)	\$ (5,851.21)
UM	32161	USDA Contracts & Grants	(184,904.07)	(87,390.00)
UM	32163	US Dept of Interior C&G	(412,727.87)	(291,316.21)
UM	32166	NSF C&G	(84,795.12)	(28,064.45)
UM	32167	EPA Contracts & Grants	(6,334.16)	(3,278.12)
UM	32168	US Dept Ed C&G	(47,473.21)	(34,257.49)
UM	32169	Federal Agencies Misc C&G	(118,607.24)	(164,031.63)
UM	32170	Federal Subgrant C&G	(373,749.66)	(163,544.50)
UM	32180	State Agencies C&G	(196,890.06)	(56,069.95)
UM	32185	Local Govt C&G	(30,822.89)	(12,178.30)
MSU	32207	CWS Payroll	(131,056.23)	(250,080.76)
HVTC	32056	CWS Payroll Pool	(2,021.91)	(3,626.92)

C. Clearing Accounts/Adjustments

Clearing accounts consist of accounting entities where another asset exists (such as account receivables) which is equal to the amount of negative cash. The accounts are frequently monitored to be certain that the receivables or other assets can be converted to cash in the future. Adjustments refer to accounts which would have had a positive cash balance had all appropriate adjustments been made.

<u>Campus</u>	<u>Accounting</u>		<u>Dollar Amount</u>	
	<u>Entity #</u>	<u>Account Name</u>	<u>FY93</u>	<u>FY92</u>
MSU	31209	Deferred Fee Payment	(40,201.63)	(15,338.68)
MSU	33213	Advances	(114,536.74)	(180,265.48)
MSU	33219	NSF Checks	(20,801.52)	(15,073.40)
MSU	33290	Designated Accts. Rec.	(19,234.52)	(36,100.02)
MSU	34290	Auxiliary Accts Rec.	(1,347.27)	(2,668.62)
NMC	31402	Registration-Deferred Contr	(145,481.18)	(152,306.92)
NMC	31403	Agency Billing Clearing	(35,891.08)	(74,350.81)
NMC	33407	Gym Activities	(12,890.05)	(302.03)
HVTC	33040	Instructional Service Oper	(10,170.01)	(5,292.16)

THE UNIVERSITY OF MONTANA
HOUSE BILL 44 REPORTING
For Fiscal Year 1993

LOANS AUTHORIZED TO SUBFUND ENTITIES

Agency:	The University of Montana	
Entity Name:	Inter Entity Borrowing Restricted Funds	
Entity Number:	32199	
Loan Amount:	FYE 1992 (\$500,000)	FYE 1993 (\$900,000)

1. Brief Explanation of the Entity:

The purpose of this entity is to record a loan at the subfund level for restricted entities.

2. Explanation as to Why the Loan Exists:

This loan is necessary given the nature of restricted fund entities. They operate primarily on a cost-reimbursable basis. Many are grants and contracts or student financial aid programs from which funds are expended and billed to the federal government or other agencies after-the-fact.

3. Solvency Analysis:

The negative entities within the restricted subfund are solvent since there are accounts receivable, which when collected, will eliminate the associated negative cash position.

4. Reduction/Elimination Plan:

There will always be a need for a loan to the restricted subfund as long as we continue to sponsor cost-reimbursable activities. Timely billing and collection minimize the loan required to maintain a positive cash position. However, as the total dollar volume of sponsored programs increase so will the required loan balance. The University's sponsored program expenditures increased three (3) million dollars this year from 9.6 million in 1992 to 12.6 million in 1993.

ACCOUNTING ENTITIES WITH NEGATIVE CASH BALANCES
FOR TWO CONSECUTIVE YEARS

Agency: The University of Montana
Entity Name: UM Off-Campus Work Study Accounts
Entity Number: 32108
Cash Balance: FYE 1992 FYE 1993
 (\$5,851.21) (\$3,590.48)

1. Brief Explanation of the Purpose of the Entity:

This entity is used to record the employer share of student work study wages for students in the federal work study program working off-campus.

2. Explanation of Negative Cash Balance:

This entity is funded on a cost-reimbursable basis from the off-campus employers of work study students. Because the expense must occur before it can be billed, the entity will always be in a negative cash position.

3. Solvency Analysis:

There are accounts receivable in this entity which off-set the negative cash position. Additionally, the fund balance, which is a true measure of solvency, is zero.

4. Reduction/Elimination Plan:

Although this entity will always have a negative cash balance due to the nature of cost reimbursable programs, timely billing and increased efforts in the collection of outstanding receivables has reduced the negative cash amount.

Agency: The University of Montana
Entity Name: USDA Contracts and Grants
Entity Number: 32161
Cash Balance: FYE 1992 FYE 1993
 (\$87,390.00) (\$184,904.07)

1. Brief Explanation of the Purpose of the Entity:

This entity is used to record activity for federal contracts or grants sponsored by the U.S. Department of Agriculture.

Agency: The University of Montana
Entity Name: US Dept. of Interior Contracts and Grants
Entity Number: 32163
Cash Balance: FYE 1992 FYE 1993
 (\$291,316.21) (\$412,727.87)

1. Brief Explanation of the Purpose of the Entity:

This entity is used to record activity for federal contracts or grants sponsored by the U.S. Department of Interior.

Agency: The University of Montana
Entity Name: NSF Contracts and Grants
Entity Number: 32166
Cash Balance: FYE 1992 FYE 1993
 (\$28,064.45) (\$84,795.12)

1. Brief Explanation of the Purpose of the Entity:

This entity is used to record activity for federal contracts or grants sponsored by the National Science Foundation.

Agency: The University of Montana
Entity Name: EPA Contracts and Grants
Entity Number: 32167
Cash Balance: FYE 1992 FYE 1993
 (\$3,278.12) (\$6,334.16)

1. Brief Explanation of the Purpose of the Entity:

This entity is used to record activity for federal contracts or grants sponsored by the Environmental Protection Agency.

Agency: The University of Montana
Entity Name: US Dept of Education Contracts and Grants
Entity Number: 32168
Cash Balance: FYE 1992 FYE 1993
 (\$34,257.49) (\$47,473.21)

1. Brief Explanation of the Purpose of the Entity:

This entity is used to record activity for federal contracts or grants sponsored by the US Department of Education.

Agency: The University of Montana
Entity Name: Federal Agencies - Misc Contracts and Grants
Entity Number: 32169
Cash Balance: FYE 1992 FYE 1993
 (\$164,031.63) (\$118,607.24)

1. Brief Explanation of the Purpose of the Entity:

This entity is used to record activity for federal contracts or grants sponsored by various federal agencies. The establishment of a unique accounting entity for each agency has not been warranted.

Agency: The University of Montana
Entity Name: Federal Subgrant Contracts and Grants
Entity Number: 32170
Cash Balance: FYE 1992 FYE 1993
 (\$163,544.50) (373,749.66)

1. Brief Explanation of the Purpose of the Entity:

This entity is used to record activity for federal funds subgranted to the University.

Agency: The University of Montana
Entity Name: State Agencies Contracts and Grants
Entity Number: 32180
Cash Balance: FYE 1992 FYE 1993
 (\$56,069.95) (\$196,890.06)

1. Brief Explanation of the Purpose of the Entity

This entity is used to record activity for contracts or grants from other State of Montana agencies.

Agency: The University of Montana
Entity Name: Local Government Contracts and Grants
Entity Number: 32185
Cash Balance: FYE 1992 FYE 1993
 (\$12,178.30) (\$30,822.89)

1. Brief Explanation of the Purpose of the Entity

This entity is used to record activity for contracts or grants sponsored by local governmental agencies.

2. Explanation of Negative Cash Balance:

(Entity 32161, 32163, 32166, 32167, 32168, 32169, 32170, 32180, 32185)

Most grants and contracts are cost-reimbursable. This means that the expenditures must be incurred before billing and reimbursement from the funding agencies can occur. The flow of this process will always result in negative cash within these accounts. The increases in the negative cash balances from 1992 to 1993 are related to volume changes. For example, the expenditures in the Federal Subgrant Contracts and Grants entity (#32170) doubled this year, increasing from 1.1 million in 1992 to 2.4 million in 1993. There was a 3 million increase in total grant expenditures this year.

3. Solvency Analysis:

(Entity 32161, 32163, 32166, 32167, 32168, 32169, 32170, 32180, 32185)

Grants and contracts are covered by formal agreements between the University and the funding agencies. As part of these agreements, the funding agency agrees to pay for expenses incurred by the University on behalf of the project. As the agencies are billed, a receivable and revenue are recorded equal to the unreimbursed expenses. This results in a fund balance of zero which places these accounts in a solvent position since liquidation of the receivable will eliminate the associated negative cash.

4. Reduction/Elimination Plan:

(Entity 32161, 32163, 32166, 32167, 32168, 32169, 32170, 32180, 32185)

Although negative cash cannot be eliminated in these entities, it is constantly monitored by ensuring billing and collecting are done in a timely manner. Efforts in these areas continue to be a priority and the University is in a current position with billing and collections.

NEGATIVE FUND BALANCE ANALYSIS

Agency: The University of Montana
Entity Name: 1985 Bond Series A & B
Entity Number: 73149
Fund Balance: (\$651,633.58)

Fund Balance Analysis:

This negative fund balance is the result of recording interest expense and the associated liability for the accrued interest on the 1985 Capital Appreciation Bonds. Because payments to bondholders do not begin until 1994, this liability will continue to escalate. Scheduled bond payments reducing this liability will eliminate the negative fund balance in fiscal year 1996.

**MONTANA UNIVERSITY SYSTEM
NEGATIVE FUND BALANCE REPORT**

DATE: September 3, 1993
AGENCY: Montana State University
ENTITY NUMBER: 33219
ENTITY NAME: NSF Checks

<u>ACCOUNT BALANCES</u>	<u>FYE 1992</u>	<u>FYE 1993</u>
Cash Balance	(15,073.40)	(20,801.52)
Fund Balance	0.00	0.00

1. Explanation of Purpose of Entity:

In accordance with State statute and Generally Accepted Accounting Principles, this entity provides an accounting for the collection on checks which are deposited by MSU and then subsequently returned by the bank for non-sufficient funds. Returned checks are purchased from the bank to maintain the daily deposits at the level withdrawn by the State Treasurer's Office. Collection on checks begins immediately. This procedure has been in effect for at least 16 years, and has been audited each year.

2. Explanation of the Negative Fund Balance:

This entity purchases from the bank those checks which have been returned for non-sufficient funds. The State Treasurer removes the bank deposits daily for immediate investment. In some cases, this is days before a check is identified as one to be returned to the depositor.

3. Solvency Analysis:

By definition, this account is solvent, because the fund balance is zero.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State statute controls on cash, the fund balance is a more valid indication of the solvency of this account.

**MONTANA UNIVERSITY SYSTEM
NEGATIVE FUND BALANCE REPORT**

DATE: September 3, 1993
AGENCY: Montana State University
ENTITY NUMBER: 31209
ENTITY NAME: Deferred Fee Payment Plan

<u>ACCOUNT BALANCES</u>	<u>FYE 1992</u>	<u>FYE 1993</u>
Cash Balance	(15,338.68)	(40,201.63)
Fund Balance	(1,013.29)	(8,425.59)

1. Explanation of Purpose of Entity:

This entity is a control account for deferred fee payments. The Deferred Fee Payment Plan was authorized by the Board of Regents on September 11, 1972 (Item 224-004) to allow for an installment plan for student tuition and fee payments. The plan requires the student to pay at least one third of the fees at fee payment time, one third 45 days later, and the last third 90 days after fee payment. In recent years, about 1,500-1,800 students have taken advantage of this option to defer \$2.0-2.5 million annually. This procedure has been in effect for at least 16 years, and has been audited each year.

2. Explanation of the Negative Fund Balance:

The deficit is a result of summer session fees. Normally these fees are collected at the time of registration. However, with the deferred fee payment plan, students may pay one third down, one third in 45 days, and one third in 90 days. Because of the fiscal year boundaries, two thirds of the summer session fees are collected in the new fiscal year, creating a negative cash position at fiscal year end.

3. Solvency Analysis:

By definition, this account is solvent. The fund balance is zero except for the mathematically calculated GAAP adjustment for Bad Debt Allowance. All write-offs occur to entity 31201, MSU General Operating.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State statute controls on cash, the fund balance is a more valid indication of the solvency of this account.

**MONTANA UNIVERSITY SYSTEM
NEGATIVE FUND BALANCE REPORT**

DATE: September 3, 1993
AGENCY: Montana State University
ENTITY NUMBER: 33213
ENTITY NAME: Advances

<u>ACCOUNT BALANCES</u>	<u>FYE 1992</u>	<u>FYE 1993</u>
Cash Balance	(180,265.48)	(114,536.74)
Fund Balance	0.00	0.00

1. Explanation of Purpose of Entity:

State laws and Generally Accepted Accounting Principles require expenditures to be recorded in the year which they apply. Frequently however, vendors will require payment in one fiscal year for services to be provided in a subsequent fiscal year. The Advances entity facilitates the accounting procedure in which MSU makes advance payments to vendors (or employee travel advances) and defers expensing the cost to the appropriate responsibility center until such time that the expense can be recorded in the proper fiscal year. This procedure has been in place for at least 16 years, and is regularly reviewed by the Office of the Legislative Auditor.

2. Explanation of the Negative Fund Balance:

This entity, by design, will have a negative cash balance at fiscal year end, as payments are made from this entity in one fiscal year and not reimbursed until the next fiscal year.

3. Solvency Analysis:

By definition, this account is solvent, because the fund balance is zero. All advances are repaid by the proper expensing of the payment or repayment by the employee.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State statute controls on cash, the fund balance is a more valid indication of the solvency of this account.

**MONTANA UNIVERSITY SYSTEM
NEGATIVE FUND BALANCE REPORT**

DATE: September 3, 1993
AGENCY: Montana State University
ENTITY NUMBER: 33290
ENTITY NAME: Designated Accounts Receivable

<u>ACCOUNT BALANCES</u>	<u>FYE 1992</u>	<u>FYE 1993</u>
Cash Balance	(36,100.92)	(19,234.52)
Fund Balance	0.00	0.00

1. Explanation of Purpose of Entity:

State policies and procedures, as well as Generally Accepted Accounting Principles, require that MSU account for bills owed by campus departments and other state agencies for services provided. Approximately 75 designated centers provide services to the campus and other state agencies. Examples are Campus Stores, Motor Pool, and Computing Services. The University's centralized receivables process provides one bill for all services, rather than numerous individual department billings. This results in administrative services savings for the University. This procedure has been in effect for at least 11 years, and has been audited each year.

2. Explanation of the Negative Fund Balance:

Each service area from campus submits invoices to the Business Office during the month. At month end, consolidated bills are sent to agencies owing the University. A receivable is recorded in SBAS by recording revenue in the entities of the service areas. Most bills are collected during the next 30 days. Any bill not collected in 120 days is returned to the service area and revenue is reversed to clear the receivable.

3. Solvency Analysis:

By definition, this account is solvent, because the fund balance is zero.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State statute controls on cash, the fund balance is a more valid indication of the solvency of this account.

**MONTANA UNIVERSITY SYSTEM
NEGATIVE FUND BALANCE REPORT**

DATE: September 3, 1993
AGENCY: Montana State University
ENTITY NUMBER: 33213
ENTITY NAME: Advances

<u>ACCOUNT BALANCES</u>	<u>FYE 1992</u>	<u>FYE 1993</u>
Cash Balance	(180,265.48)	(114,536.74)
Fund Balance	0.00	0.00

1. Explanation of Purpose of Entity:

State laws and Generally Accepted Accounting Principles require expenditures to be recorded in the year which they apply. Frequently however, vendors will require payment in one fiscal year for services to be provided in a subsequent fiscal year. The Advances entity facilitates the accounting procedure in which MSU makes advance payments to vendors (or employee travel advances) and defers expensing the cost to the appropriate responsibility center until such time that the expense can be recorded in the proper fiscal year. This procedure has been in place for at least 16 years, and is regularly reviewed by the Office of the Legislative Auditor.

2. Explanation of the Negative Fund Balance:

This entity, by design, will have a negative cash balance at fiscal year end, as payments are made from this entity in one fiscal year and not reimbursed until the next fiscal year.

3. Solvency Analysis:

By definition, this account is solvent, because the fund balance is zero. All advances are repaid by the proper expensing of the payment or repayment by the employee.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State statute controls on cash, the fund balance is a more valid indication of the solvency of this account.

**MONTANA UNIVERSITY SYSTEM
NEGATIVE FUND BALANCE REPORT**

DATE: September 3, 1993
AGENCY: Montana State University
ENTITY NUMBER: 33290
ENTITY NAME: Designated Accounts Receivable

<u>ACCOUNT BALANCES</u>	<u>FYE 1992</u>	<u>FYE 1993</u>
Cash Balance	(36,100.92)	(19,234.52)
Fund Balance	0.00	0.00

1. Explanation of Purpose of Entity:

State policies and procedures, as well as Generally Accepted Accounting Principles, require that MSU account for bills owed by campus departments and other state agencies for services provided. Approximately 75 designated centers provide services to the campus and other state agencies. Examples are Campus Stores, Motor Pool, and Computing Services. The University's centralized receivables process provides one bill for all services, rather than numerous individual department billings. This results in administrative services savings for the University. This procedure has been in effect for at least 11 years, and has been audited each year.

2. Explanation of the Negative Fund Balance:

Each service area from campus submits invoices to the Business Office during the month. At month end, consolidated bills are sent to agencies owing the University. A receivable is recorded in SBAS by recording revenue in the entities of the service areas. Most bills are collected during the next 30 days. Any bill not collected in 120 days is returned to the service area and revenue is reversed to clear the receivable.

3. Solvency Analysis:

By definition, this account is solvent, because the fund balance is zero.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State statute controls on cash, the fund balance is a more valid indication of the solvency of this account.

**MONTANA UNIVERSITY SYSTEM
NEGATIVE FUND BALANCE REPORT**

DATE: September 3, 1993
AGENCY: Montana State University
ENTITY NUMBER: 34290
ENTITY NAME: Auxiliary Accounts Receivable

<u>ACCOUNT BALANCES</u>	<u>FYE 1992</u>	<u>FYE 1993</u>
Cash Balance	(2,668.62)	(1,347.27)
Fund Balance	0.00	0.00

1. Explanation of Purpose of Entity:

State policies and procedures, as well as Generally Accepted Accounting Principles, require that MSU account for bills owed by campus departments and other state agencies for services provided. Approximately 75 designated centers provide services to the campus and other state agencies. Examples are Campus Stores, Motor Pool, and Computing Services. The University's centralized receivables process provides one bill for all services, rather than numerous individual department billings. This results in administrative services savings for the University. This procedure has been in effect for at least 11 years, and has been audited each year.

2. Explanation of the Negative Fund Balance:

Each service area from campus submits invoices to the Business Office during the month. At month end, consolidated bills are sent to agencies owing the University. A receivable is recorded in SBAS by recording revenue in the entities of the service areas. Most bills are collected during the next 30 days. Any bill not collected in 120 days is returned to the service area and revenue is reversed to clear the receivable.

3. Solvency Analysis:

By definition, this account is solvent, because the fund balance is zero.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State statute controls on cash, the fund balance is a more valid indication of the solvency of this account.

**MONTANA UNIVERSITY SYSTEM
NEGATIVE FUND BALANCE REPORT**

DATE: September 3, 1993
AGENCY: Montana State University
ENTITY NUMBER: 32207
ENTITY NAME: College Work Study Payroll

<u>ACCOUNT BALANCES</u>	<u>FYE 1992</u>	<u>FYE 1993</u>
Cash Balance	(250,080.76)	(131,056.23)
Fund Balance	0.00	0.00

1. Explanation of Purpose of Entity:

The purpose of this entity is to serve as a payroll clearing account for college work study student employees. This entity is administered by MSU Financial Aid.

2. Explanation of the Negative Fund Balance:

The negative cash balance in this entity is normally due to year end cash flow. MSU incurs expenses in this entity for work study payroll that are not reimbursed until after the State cash cut-off of June 30. Payments are subsequently received from both the federal government and off-campus employers, restoring the entity to a positive cash position.

3. Solvency Analysis:

By definition, this account is solvent, because the fund balance is zero.

4. Reduction/Retirement Plan:

Because of the nature of this clearing account, it will continue to carry a negative cash balance. While State statute controls on cash, the fund balance is a more valid indication of the solvency of this account.



EASTERN
MONTANA COLLEGE

1500 North 30th Street, Billings, MT 59101-0298

Office of Administrative Vice President 406/657-2155 FAX 406/657-2051

RECEIVED

SEP 03 1993

MONTANA UNIVERSITY SYSTEM

August 26, 1993

Ms. Laurie Neils
Director of Budget and Accounting
Commissioner of Higher Education Office
2500 Broadway
Helena MT 59620

Dear Laurie:

This letter is in response to your request regarding statutory reporting requirements for cash and loans.

EMC did not have any loans or loan extensions authorized for accounting entities at FYE 1992 or FYE 1993.

Accounting entity #33353 Music did have negative cash as well as a negative fund balance for both FYE 1992 and FYE 1993. The requested report for this entity is attached.

There were no other entities with negative cash for two consecutive years or a negative fund balance at FYE 1993.

If you have any questions, please contact LeAnn Anderson.

Sincerely,

Terrie Iverson
Interim Administrative
Vice President

enc

cc: LeAnn Anderson
Dr. Bruce Carpenter

NEGATIVE CASH AND FUND BALANCE ANALYSIS

Agency: Eastern Montana College
Entity Name: Music
Entity Number: 33353

Account Balances	FYE 1992	FYE 1993
Cash Balance	\$(8,378)	\$(6,882)
Fund Balance	(8,465)	(6,882)

1. Brief Explanation of Purpose of Entity:

The purpose of this entity is to provide accounting and financial reporting for the music department of the college.

2. Explanation of Negative Fund Balance:

The negative fund balance in this entity occurred due to the sponsoring of the Jazzfest '92 and guest concert artist. Sufficient revenues were not realized to cover the costs of the event.

3. Solvency Analysis:

The fund controller has submitted a plan to alleviate the negative balance by restructuring the Jazzfest program and drastically reducing future expenses. Program ad sales will be dedicated toward making up the deficit. The Jazzfest account will not be utilized until the deficit is cleared. It is our plan to have this account positive by fiscal year end 1994.

NORTHERN MONTANA COLLEGE
NEGATIVE FUND BALANCE / NEGATIVE CASH REPORT
JUNE 30, 1993

NEGATIVE FUND BALANCE:

<u>Entity</u>	<u>Title</u>	<u>Amount</u>
33415	Great Falls Campus	(\$ 18,646.28)
	Explanation:	
	This accounting entity records the costs associated with the operation of the Great Falls Campus. This accounting entity had a negative fund balance of \$56,242 at June 30, 1991, and a negative fund balance of \$12,006.04 at June 30, 1992. It was anticipated that the account would become positive by the end of fiscal year 1993. An enrollment decrease resulted in the revenue for FY93 being approximately \$37,000 less than FY 92. The fall term headcount dropped by 100 students. For FY 94, revenue and expenditure projections show this account becoming positive by the end of FY 94.	
33401	Motor Pool	(\$8,519.47)
	Explanation:	
	This accounting entity records the costs associated with operation of a motor pool for vehicle rental to various departments of the College. In FY 93, two new vehicles were purchased. Based on an error in estimating revenue and expenses in this account, funds were actually only available for the purchase of one vehicle. For FY 94, no vehicle purchase will be made unless it is determined that funds are available. Normal operations of the account will bring the account positive by the end of FY 94.	
71403	Computer Fee	(\$5,130.57)
	Explanation:	
	This account is funded from student computer fee revenues. Annual collections are approximately \$65,000. Expenditures for FY93 exceeded funds available. Expenditures for FY94 will be reduced accordingly and the account will be positive at the end of FY94.	

NORTHERN MONTANA COLLEGE
NEGATIVE FUND BALANCE / NEGATIVE CASH REPORT

JUNE 30, 1993

page 2

33413 Student Projects (\$4,007.67)

Explanation:

This account records activity related to various student projects. The negative fund balance is the result of the purchase of an amount of lumber to be charged to students for use in projects. The wood has not been inventoried and therefore the value is not carried on the financial records of NMC. While the amount is not material with regards to the overall College financial statements, the materials will either be inventoried or sold by fiscal year end 1994. An inventory adjustment or sale of the lumber will result in a positive fund balance.

NEGATIVE CASH BALANCE:

<u>Entity</u>	<u>Title</u>	<u>Amount</u>
31402	Registration Deferred Cont.	FY93 (\$145,481.18) FY92 (\$152,306.92) FY91 (\$126,081.78)
31403	Agency Billing	FY93 (\$35,891.08) FY92 (\$74,350.81) FY91 (\$35,748.71)

Explanation:

These accounting entities record the account receivable activity of student fee collections. All of the negative cash is offset by accounts receivable.

33407	Gym Activities	FY93 (\$12,890.05) FY92 (\$302.03)
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Explanation:

This accounting entity records activity regarding the costs associated with having the NMC Gymnasium open for public use. The negative cash is offset by cash adjusting entries done at year end. Taking these adjustments into consideration, the cash balance at year end is \$517.43.

NORTHERN MONTANA COLLEGE

NEGATIVE FUND BALANCE / NEGATIVE CASH REPORT

JUNE 30, 1993

page 3

33412	Repair & Maintenance	FY93 (\$109,478.65)
		FY92 (\$54,998.31)
		FY91 (\$73,273.93)

Explanation:

This accounting entity records activity of the campus repair and maintenance recharge center. The account accumulates expenditures from repair and maintenance work performed and then recharges various departments for the completed work. The negative cash balance at year end needs to be adjusted for year end cash cutoff adjustments. When these adjustments are taken into account, the balance at FY93 year end is (\$63,736.99). This account also purchases supplies and materials that are held in inventory. During FY93 the value of inventory grew by approximately \$37,000. It appears as though this account will continue to have a negative cash balance for some time, but the fund balance will be positive. At the end of FY92, the fund balance was (\$15,283.62). At the end of FY93 that balance was brought positive to \$12,192.93. It will be necessary to increase the fund balance annually until such time as the fund balance exceeds the amount of inventory and work in progress.

NORTHERN MONTANA COLLEGE
NEGATIVE FUND BALANCE / NEGATIVE CASH REPORT

JUNE 30, 1993

page 4

34401	Housing & Dining System	FY93 (\$157,804.63)
		FY92 (\$27,733.75)

Explanation:

This accounting entity records activity of the campus Housing & Dining System. This negative cash balance is the result of a continued low population in the residence halls and some exceptional repair items. The FY93 expenditures included approximately \$65,000 of unbudgeted repair expenditures, primarily in the Family Housing Units. For FY94, the College raised the room rates by 7.4% and the Board rates by 8.0%. The residence hall occupancy for the Fall 1992 was 196 students. For Fall 1993, the occupancy level is 240. This increase in rates and occupancy should provide approximately \$50,000 additional revenue over last year. Additionally, the College has closed a residence area in Donaldson Hall. This cost reduction measure should reduce operating expenses by approximately \$15,000. These measures will greatly reduce the negative cash balance and with continuation of current enrollments and cost reduction measures, the negative cash balance should be made up within two years.

HELENA VOCATIONAL-TECHNICAL CENTER

TO: Laurie Neils
Director of Budget & Accounting

FROM: Charles W. Wetterling *CWW*
Business Manager

DATE: October 8, 1993

SUBJECT: Negative Cash Report - FY93

At close of FY93, HVTC had two accounting entities with negative cash for two fiscal years. Their A.E. is 32056 which is used for College Work Study payroll and had a zero fund balance. The reason this AE has gone negative each year is that when CWS payrolls are run during the month of June, a large percent are actually expenditures for the following fiscal year. This is due to a student's CWS eligibility during summer school is recorded to the next fiscal year for both state fiscal and Financial Aid records. Therefore, in reality, the cash expenditure is offset to Prepaid Expense of which we had \$3,326.27 in FY93. Cash, therefore, remains negative only until July when the Financial Aid records reflect the expense and reimbursement to this payroll pool occurs from the employers.

The second A.E. with negative cash is 33040 for our Instructional Service Operations which is a "resale" entity. This A.E. has a negative cash balance usually each year due to the investment/expenditures recorded for our annual trade house project. Although the house is completed at the end of the academic year, by close of the fiscal year the house sale proceeds has not yet been received. Usually we do not receive the payment until late August or early September in the next fiscal year. During FY93 our total expenditures were \$49,501.15 of which a down payment of \$4,900 was received. The outstanding balance due was \$44,910 which clearly would have provided a positive cash balance of \$34,739.99. It is anticipated that this A.E. 33040 will continually have this short term negative balance occurring primarily at each fiscal year end.

During FYE 1994, however, HVTC will look at the possibility of advancing the funds through prepayments recorded to both the on-campus and off-campus employers which might alleviate AE 32056 negative cash posture.

The only other AE's with negative fund balances are primary operations 31004 which is due to the compensated absences, and state CWS 33046 at \$.05 due to a rounding error when it was charged from AE 32057, leaving a positive \$.05 cash balance in AE 32057.